

Members

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Phil Faccenda
Terry White



GOVERNMENT EFFICIENCY COMMISSION SUBCOMMITTEE ON HIGHER EDUCATION

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MEETING MINUTES¹

Meeting Date: August 23, 2004
Meeting Time: 10:00 A.M.
Meeting Place: 101 W. Ohio Street, Suite 550
Meeting City: Indianapolis, Indiana
Meeting Number: 7

I. Call to Order and Attendance

The meeting of the Subcommittee on Higher Education was called to order by Chairman Tom Reilly at 10:00 a.m., August 23, 2004, in the offices of the Indiana Commission for Higher Education (CHE), 101 West Ohio, Suite 550, Indianapolis. In attendance were subcommittee members, Mr. Terry White and Mr. Phil Faccenda, and advisory directors, Mr. Tim McGinley and Dr. Gus Watanabe. Advisory Director, Dr. Ernest Bartell, participated by phone. Also in attendance were Commissioner for Higher Education, Stan Jones, designated staff advisor to the subcommittee, and Dennis Jones and Aims McGuinness from the National Center for Higher Education Management Systems.

II. General Issues and Order of Business

Chairman Reilly reported that the subcommittee was processing the last check for NCHEMS. Aside from editing and style issues, the report was complete.

The full Efficiency Commission will receive the Higher Education Subcommittee report on November 9. Other subcommittees will also report during the week of November 8-12. At least one of the NCHEMS consultants will attend the November 9 meeting of the Efficiency

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Commission.

Chairman Reilly also reported that the co-chairs of the Efficiency Commission requested that no subcommittee reports be made public before the week of November 8-12.

Chairman Reilly described the order of business for the meeting:

1. Closure on the report;
2. Discussion of reallocation issues;
3. Development of recommendations on the governance system;
4. Development of the idea of compacts between state leadership, the Commission for Higher Education, and the institutions; and
5. Discussion of needs for legislation raised by the report.

Chairman Reilly also offered brief comments about the first meeting of Governor Kernan's Taskforce on Affordability, of which he is a member.

III. Reallocation Issues

Mr. Jones told the subcommittee that it has set a direction that will be difficult to follow without additional funding. Given that the subcommittee's charge was to make recommendations that included no new state funding, there was nowhere to turn other than to tuition and research revenues, and research revenues are reimbursement for what an institution has already spent. Mr. Jones laid out the logic behind reallocation as follows:

1. Because of demand, IU Bloomington (IUB) and PU West Lafayette (PUWL) can raise tuition. They are currently at the low end of the Big 10.
2. The reallocation plan ensures that total revenues at IUB and PUWL won't decrease.
3. This can be done with fewer undergraduates at IUB and PUWL.
4. Reductions in undergraduate teaching will lead to some savings.
5. On a per student basis, state appropriations will decline.
6. Savings from teaching fewer undergraduates will permit internal reallocations.
7. Savings to the state can be reinvested in
 - a. financial aid to protect low-income students
 - b. research initiatives at PUWL and IUB
 - c. development of a community college system

This reallocation could be done over a four-year period during which IUB and PUWL are protected against a loss of overall revenue.

Mr. Jones emphasized that the increase in tuition means an increase in net tuition. It does not have to fall completely on resident students; nonresidents can shoulder much of the burden.

Mr. McGinley asked Mr. Jones to clarify his comments about nonresidents. Could PUWL, for example, give up 8,000 residents and replace them with 8,000 nonresidents?

Mr. Jones replied that it could be done, but with no decrease in total undergraduates, the university wouldn't find any savings.

Mr. McGinley responded that Purdue would have to be permitted to replace some residents with nonresidents under such a plan because of the huge amount of dollars involved.

Chairman Reilly explained that his overall reading of the reallocation plan was to provide IUB and PUWL with a lot of flexibility. We want a bigger research component at those campuses, and we need to redress the balance of students between undergraduates and graduate students. It will be up to the campus leadership to determine exactly what that mix is.

Mr. McGuinness added that the overall point was to achieve a better balance of students. It is in Indiana's interest to educate more students at less expensive institutions.

Dr. Watanabe said that PUWL and IUB would get the most leverage by increasing nonresidents and decreasing undergraduates. He asked if efficiency is improved if we reduce the number of resident undergraduates at IUB and PUWL and replace them with nonresidents.

Mr. Jones answered that the institutions would most likely have the same number of students, but with higher costs and more revenues. He emphasized that the point of the exercise was to find additional resources to reinvest. One could be crass and simply take the resources from IUB and PUWL and tell them to figure out how to replace the lost state funds. The report, however, suggests lowering the number of undergraduates and reallocating the funds that would have been spent to educate them, or keep the same number of undergraduates but at higher tuition.

Mr. McGinley responded that fewer undergraduates would mean empty dorm rooms and unused food service capacity. He expressed serious concerns about reallocation. In particular, increasing the number of graduate students may be a good thing, but the cost structure for graduate students is very different from undergraduates. They require better faculty, big research budgets, and they often don't pay any tuition.

Commissioner Jones asked if graduate students are revenue neutral. Mr. Jones replied that institutions lose money on graduate students.

Dr. Watanabe responded that that is true unless research revenues rise. Faculty, labs, and equipment expenses are high at the start, but with research grants and indirect costs, some research pays for itself.

Mr. McGinley noted that dropping undergraduates in favor of graduate enrollment could mean dropping lower-paid lecturers in favor of highly paid research professors with many fewer students.

Chairman Reilly replied that this is the direction the subcommittee wants to go, and the institutions need to be given additional flexibility.

Dr. Watanabe suggested that the report not mandate a drop in undergraduate enrollment; the goals could be achieved by changing the balance of residents to nonresidents. A lot of research faculty bring their own salaries with them in the form of their grants. An instructor teaching undergraduates is much less expensive, but researchers may bring huge amounts of money with them.

Mr. McGinley suggested that further discussion and analysis would be needed. He would support the conclusions, but institutions would have to be given maximum flexibility to achieve the goals.

Dr. Bartel emphasized the difference between PUWL and IUB in respect to program

offerings. IUB has an emphasis on arts and humanities that don't bring in big grants. This also supports the need for maximum flexibility.

Chairman Reilly added that the compact idea contained in the NCHEMS report would grant maximum flexibility to IUB and PUWL. They should become better researchers and give some money back to the state.

Mr. Jones said the intent of the report was to enroll fewer Indiana undergraduates at PUWL and IUB and reallocate some state funds. The expectation was that the institution would manage through getting bigger and better at research.

Mr. McGinley commented on the reallocation example at the end of the report, suggesting that the use of specific numbers in the example was a disservice to the report. In particular, people would think it unfair to take so much more away from PUWL than IUB.

Mr. Jones called the example a proof of concept, not a recommendation. The example simply shows that the plan is feasible. He added that the example was done at the subcommittee's request and could be removed.

Mr. McGuinness asked the subcommittee to think of a hypothetical state with hypothetical universities that have long focused on undergraduate education — i.e., facing the same issues as Indiana. The message of a report in such a circumstance would be to give trustees more flexibility to undertake fundamental changes, such as losing their undergraduate focus and concentrating more on research.

Mr. McGinley agreed that the institutions needed incentives to start focusing on graduate education and research rather than undergraduates, but suggested that the four years envisioned in the report were much too fast.

Mr. McGuinness responded that given legislatures' penchants for unraveling things, four years may be too slow.

Commissioner Jones suggested that rather than tie together tuition increases and reallocation, the state could take 1 percent per year for reallocation from all institutions. That would be less painful.

Mr. Jones replied that if every institution contributed, they would simply be taking money from everyone and giving it right back. It wouldn't add new revenue.

Chairman Reilly suggested that reallocation from every institution was simply a zero-sum game, and we need more revenue in the system.

Mr. White stated that reallocating dollars did nothing to reallocate bodies. A 2 percent reallocation wouldn't move students to other campuses.

Commissioner Jones responded that the reallocation of students and state dollars would be unpopular with the General Assembly. Another plan would be needed to accomplish the subcommittee's goals.

Dr. Watanabe asked if the approaches could be combined; for example, a 2 percent reallocation from everyone that would only be distributed if x, y, and z happened. Purdue and IU could both receive incentives from the reallocated funds.

Commissioner Jones responded that for IU and Purdue, the only real savings would come from a reduction in the number of undergraduates. This is a lot of work to get back to the same place. No states are undertaking reallocations of this size.

Mr. Jones responded that Indiana has a problem of using one-size-fits-all solutions to tuition and fee questions.

Mr. McGinley stated that if the market and the political system would allow Purdue to raise their tuition by \$1,400, the top priority of the trustees would not be to replace state funds with the additional funds. The plan would use up market flexibility with no improvements attached.

Mr. Jones replied that there would be improvements if the number of undergraduates declined or if more nonresidents attended. A chunk of money would still be available for reinvestment. In contrast, taking 2 percent away and giving it right back wouldn't accomplish anything.

Mr. McGinley asked if reallocating away from Purdue and IU toward financial aid would end up benefiting the private institutions.

Mr. Jones replied that in this scheme, the money going to SSACI would end up going back to Purdue and IU as financial aid for low-income students who were facing even higher tuition and fees.

Mr. McGinley asked Mr. Jones and Mr. McGuinness to clarify that the funding would not simply go to students at private colleges.

Commissioner Jones declared that every policy that affects funding, even small policies, leaves a lot of blood on the floor. Reducing state funding for IU and Purdue would create a firestorm.

Chairman Reilly stated that it was true that the subcommittee would not have to fight that fight, but that the subcommittee has a different vantage point from the Commission for Higher Education. Even if the report goes no place, the subcommittee can't point out a broken system and offer no remedies.

Commissioner Jones asked the subcommittee to consider the tactics necessary to achieve its goals.

Chairman Reilly responded that the reality is that one sector has sucked all the air out of the system, and we can't sit around waiting for tax resources to fix it. The subcommittee report offers something constructive on a zero-sum basis.

Mr. White said that the subcommittee did need some practicality; maybe a combination of remedies.

Commissioner Jones suggested that a 2 percent reallocation over a four-year period would result in \$80 million available for reallocation.

Mr. McGuinness questioned whether institutions would be allowed to raise tuition to meet the cuts imposed by reallocation.

Commissioner Jones replied that Indiana has tuition compression. The state needs to keep costs lower at the regional campuses and community college campuses. Tuition would not

need to be raised by everyone at the same time.

Chairman Reilly contended that the reallocation would inspire a race of research against enrollment; the research institutions and community colleges would be pursuing the same funds.

Mr. Jones told the subcommittee members that he would lay out the principles they had established and say that the objectives can be reached in a number of ways.

IV. Compacts and a Higher Education Roundtable

After a short recess, the subcommittee turned to the topic of compacts. Mr. Jones explained that the compacts are parts of a multi-year process in which institutions move in the direction agreed to while the state delivers on the promises it made. If the institutions move in the right direction, they are rewarded with managerial flexibility. The process should lead to greater differentiation. If differentiation can't be achieved in such a structured policy context, nothing about the system will change.

Mr. McGuinness contended that the state needs to develop consistent policies that bring together institutional leaders and state leaders. Constant switching of signals from the state level undermines institutional autonomy.

Dr. Watanabe responded that unless IU Bloomington and Purdue West Lafayette have an understanding of the compact concept, it will be hard to hammer out and implement an agreement. It is fortunate that Mr. McGinley is participating in the subcommittee discussions because he can explain the idea to the other Purdue trustees, but IU knows little about the subcommittee's discussions.

Mr. White noted that he was not convinced that many legislators would believe there is a problem, and that many probably do not understand the connection between top-tier institutions and economic growth.

Chairman Reilly raised the issue of a "de-democratized" Commission for Higher Education that included people with vision for a long-term strategy.

Mr. White stated that he would like a more insulated board.

Mr. McGuinness said that more participation from the leaders of governing boards was needed. Other alternatives, such as a stronger central board, are around, but NCHEMS would not recommend them.

Mr. Jones said that states have differed in their approaches to this. Some used behind-the-scenes methods; some tried new structures. Changes such as those proposed couldn't be played out without people understanding the problems.

Mr. White said he was cynical about proposed changes as there was little reason for IU and PU to agree to give up students. Either that behavior would need to be incentivized, or a stronger CHE would have to make them agree.

Mr. McGuinness agreed with Mr. White. If IU and Purdue don't make changes, nothing will change.

Mr. McGinley replied that calling higher education in Indiana “broken” was too strong. There is a lot of good stuff happening, demand is strong, and enrollment is high. The idea that higher education should lead the way toward greater economic development is a relatively new idea. What’s broken is the linkage between higher education and the political process. Mr. McGinley noted that he had not heard a single speech from either gubernatorial candidate mention higher education. He also recounted the process the Purdue board undertook when it hired President Jischke and developed its strategic plan. McGinley and Jischke advocated the plan around the state.

Mr. McGuinness replied that Purdue’s experience was exactly why Indiana needed compacts; they would lead to an external understanding of issues in the same way Purdue was able to make its case for the strategic plan.

Chairman Reilly agreed that Purdue’s strategic plan is emblematic of what needs to be done. The plan boiled up out of good leadership.

Mr. McGuinness said that the state needs a single entity trying to build support. Mr. Jones elaborated on the message such an entity would have to convey; i.e., it would need to speak for all institutions.

Chairman Reilly asked what we should call for in terms of an entity to accomplish this?

Mr. McGuinness responded that first, Indiana needs an entity that will pick up this conversation. In addition,

1. A clear agenda is needed.
2. Institutions need to align their directions.
3. The state needs to be able to use finance on the margin to achieve its goals.
4. An ongoing accountability process needs to be established.

Chairman Reilly noted that the Commission for Higher Education is a professional organization, but it is not in a position to participate in discussions in a meaningful way. The Commission can only effect change marginally. Indiana doesn’t need a board of regents, but it needs something. How can it be structured?

Mr. McGuinness stated that we should begin with the assumption that the General Assembly will never delegate final decision-making. It must be persuaded of the importance of this agenda.

Commissioner Jones added that it was unlikely that the General Assembly would cede authority to anyone. If it did, the authority would have to be fairly specific, and the group to be created would probably need to include legislators and board members. Parties with authority must be present on the new body. Nonetheless, including legislators could be problematic.

A brief discussion followed on whether the State Budget Committee was the right place for the state to ratify multi-year compacts. Mr. Jones contended that something like the State Budget Committee is the right place to have conversations on higher education; not having the state’s fiscal leaders involved in such conversations is problematic.

Mr. Jones added that the Commission for Higher Education needed to sharpen its duties. It needs to be an entity that develops and builds consensus. It also needs to control a piece of the budget for investment.

Summing up the conversation, Mr. McGuinness said that the future of Indiana depends on an outstanding system of higher education. It is important that compacts, including the number of years and goals, be developed in collaboration with the State Budget Committee and the institutions. Resources should be allocated according to the agenda developed. A new entity should be created that serves in an advisory role. That entity should make an annual report to the Budget Committee and to the governing boards. Such an entity:

1. needs an informal link to the Budget Committee and the institutions;
2. needs to allocate money into long-term funds; and
3. needs to serve as an annual accountability forum.

Commissioner Jones suggested that such a body might parallel the Education Roundtable.

Mr. McGuinness contended that the entity needs to link to the strategic budgeting process. A visual model of such a body, identifying links to the institutions, the CHE, and the General Assembly was created. According to the model, the CHE would shape the strategic agenda with input from the Roundtable. The Roundtable would provide accountability. The CHE would negotiate compacts, and the Roundtable would bless them.

Commissioner Jones suggested that the Roundtable make recommendations on strategic budgeting.

Mr. White asked why the CHE does not already fill these roles.

Commissioner Jones responded that it does, but that the CHE doesn't have the "stickiness" to make sure the recommendations occur. He added that a new body functioning like the Education Roundtable to build consensus for reform would feel comfortable.

Mr. McGuinness added that it would be helpful to have a statute that says money on the margin will be allocated according to the plan.

The subcommittee broke for lunch at approximately 12:50 p.m. and returned to work at 1:15 p.m.

V. Community Colleges

Commissioner Jones raised the issue of local autonomy for community colleges vs. statewide quality controls on community colleges. What's the right balance? Are any states good models—Ohio? Illinois?

Mr. McGuinness responded that there are two principles:

1. people responsible for the quality of a particular site need to be at the site, but
2. some statewide entity needs to exist to deal with statewide employers, curriculum development, etc.

There should be a statewide system, but each site should be separately accredited.

Commissioner Jones asked about legal autonomy. Would sites have separate governing boards?

Mr. McGuinness replied that they would not.

Commissioner Jones asked how, then, such a system would be different from what exists now?

Mr. Jones replied that there is great variation between sites now. Some look, act, and feel like community colleges with transfer worked out, input into hiring decisions from four-year institutions, and faculty responsibility for the curriculum.

Mr. McGuinness added that a number of sites are close to where they should be, and all are moving in the right direction. Each should be accredited by the North Central Association. Right now, all are accredited as one college. The sites would not have autonomy, but they would have responsibility. He contrasted Ivy Tech State College to the Virginia community college system.

Commissioner Jones asked what would be accomplished with local accreditation.

Mr. McGuinness responded it would lead to group responsibility for meeting local needs.

Chairman Reilly reported that he needed to turn in a draft to the chairmen of the Efficiency Commission during the week of September 20-24. He asked Mr. Jones and Mr. McGuinness to make several editorial changes and additions.

VI. Statutory Changes and Conclusion

Chairman Reilly asked Mr. Kent Weldon, Deputy Commissioner of the CHE, to comment on proposed legislation to implement the subcommittee's recommendations.

Mr. Weldon commented that there was not a lot that needed to be done in statute to implement the recommendations. Of the many recommendations, community college statutes would require some changes, a separate group to review community college status should be created, compacts would have to be added to statute, and the realignment of CHE responsibilities might need to be addressed in statute.

Chairman Reilly wrapped up the subcommittee's meeting by inviting the members and advisors to attend the November 9 presentation of the conclusions. He also thanked the Central Indiana Corporate Partnership for providing the funds to hire NCHEMS and thanked the Commission staff for their efforts. He concluded by saying he believed the subcommittee had a very good report and he hoped it would be well received.

VII. Adjournment

The subcommittee adjourned at 2:00 p.m.